

Before The  
Committee on Energy and Commerce  
Subcommittee on  
Telecommunications and the Internet

Staff Discussion Draft of  
The DTV Transition Act of 2005

Statement of Gary J. Shapiro  
President and CEO  
Consumer Electronics Association

May 26, 2005

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### **Executive Summary**

CEA strongly supports the enactment of a hard deadline for the end of analog broadcasting. A hard deadline will bring certainty to the DTV transition. It will provide a “win-win” scenario for all stakeholders, while fostering innovation and strengthening our national security. We commend you for including a hard analog cutoff date in this draft legislation.

DTV sales continue to rapidly increase. The first quarter of 2005 brought the greatest volume of DTV sales ever recorded, with 2.3 million DTV products accounting for 2.95 billion of consumer investment. Including set-top boxes, by 2009 we will have sold 97 million DTV tuners, and we estimate that over the air tuners will be found in 86 percent of American homes. Meanwhile sales of analog sets are declining precipitously.

The CE industry has every business incentive to educate consumers about the qualities and features of the DTV they want to purchase. That is why CEA has taken the lead on consumer education, and runs an extraordinary promotional effort to ensure that consumers are fully informed about their DTV options.

The way we watch TV has fundamentally changed over the last 30 years. For the vast majority of Americans, television is now a wired service. Meanwhile, a relatively small and declining number of households rely exclusively on a free over the air antenna signal. The simple fact is that, while an analog broadcasting cut-off is important for our nation, it will have little practical impact on the viewing habits of the vast majority of Americans.

CEA endorses the discussion draft’s hard deadline, and offers suggestions to bring about a more expeditious transition. Specifically, we recommend:

**Tuner Mandate Acceleration:** The staff draft requires the FCC to move up the deadline for the inclusion of over the air tuners in 13 to 24-inch sets from July 1 of 2007 to July 1 of 2006. If implemented, such a requirement would severely reduce the retail market for these sets. The current tuner mandate is working, and we urge that it be left as-is.

**Digital Carriage and Non-Degradation:** When cable operators are carrying broadcast signals digitally, they should not be allowed to reduce

the sound or picture quality. If a broadcaster provides HDTV programming and Dolby Digital surround sound, then that is what cable viewers should see and hear.

**Television Labeling:** CEA supports educational labels on analog televisions when paired with the certainty of a hard date. However, manufacturers will need a minimum 120 days to include the labels or label text on the outside of the product packaging and on or near the television itself

**Channel Allotments:** CEA supports the proposed timetable of December 31, 2006 as the final date for the FCC to issue final broadcaster channel allotments, and an additional seven months to conclude any reconsideration of such allotments. We urge the Committee not to extend the reconsideration period beyond seven months, as this could cause the final end date for analog broadcasting to slip to 2010.

**Broadcaster Disclosures:** The Committee should increase the number of ads from two per day, and imposing separate educational requirements on networks as well as local broadcasters. The broadcasters are a powerful and effective communications medium, and it is essential that they step up and do their part to educate the nation about the transition to digital television.

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Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me to discuss our nation's progress in the transition to digital television (DTV), and the steps that should be taken to conclude the transition in the most beneficial and understandable manner.

I represent the Consumer Electronics Association (CEA), the principal U.S. trade association of the consumer electronics and information technology industries. CEA's 2,000 members include virtually every DTV manufacturer. Our members invented DTV, and we are thrilled by its astounding marketplace success. CEA also represents the cutting-edge information technology companies who will use the recovered analog broadcast spectrum to provide all Americans with innovative new wireless products and services.

CEA strongly supports the enactment of a hard deadline for the end of analog broadcasting. A hard deadline will bring certainty to the DTV transition. It will provide a "win-win" scenario for all stakeholders, while fostering innovation and strengthening our national security. We commend you for including a hard analog cutoff date in this draft legislation.

## **DTV Sales Continue to Rapidly Increase**

Our most recent sales figures show that the first four months of 2005 brought the greatest volume of DTV sales ever recorded, with 2.3 million DTV products accounting for \$2.95 billion of consumer investment. This is a remarkable 36 percent increase in unit sales from the same time period in 2004.

More than 17 million DTV products have been sold since the first HDTV sets hit the market in the fourth quarter of 1998. Americans already have invested an astonishing \$25 billion in DTV products. HDTV is the driver behind these phenomenal sales figures, with high-definition displays and receivers representing 85 percent of the DTV products sold to date.

Sales are being driven by the rapid price declines that are typical of our industry. DTV prices are 75 percent lower than they were five years ago and are still declining by approximately 15 percent each year. Today there are numerous DTV options under the \$700 mark and even some expected soon for as low as \$400.

Meanwhile, DTV products have spread from specialty retailers and major consumer electronics chains into warehouse clubs, mass merchants, and now discount stores like Wal-Mart and Target.

When consumers walk into retail stores, they now enjoy an unprecedented variety of DTV products to meet their needs and budgets. Buyers can choose from a vast array of compelling displays from traditional CRT sets to cutting-edge new technologies like plasma, LCD, DLP, and LCoS.

Most important to the current debate is the fact that consumers now can choose from 200 “integrated” models that include over-the-air ATSC tuners.

To put this in perspective, digital television has been adopted twice as quickly as color television. While it took color television ten years to achieve 5% penetration from introduction, digital television products are already in 16 million American homes!

Indeed, overall revenues from digital TV now outpace those from analog TV. Television manufacturing is now a digital industry.

As impressive as those numbers sound, we are only beginning to move up the “hockey stick curve” of sales, especially with respect to integrated DTV sets equipped with digital over the air (ATSC) tuners. CEA forecasts that 9 million integrated DTVs will be sold this year, 16.7 million in 2006, 27 million in 2007 and 33 million in 2008.

Including set-top boxes, by 2009 we will have sold 97 million DTV tuners, and we estimate that over the air tuners will be found in 86 percent of American homes.

At the same time, sales of analog sets are declining precipitously. We project sales to decline 36 percent in 2006, and an additional 53 percent in 2007. The current tuner mandate schedule established by the FCC is working.

### **CEA is the Leader in DTV Consumer Education**

The CE industry has every business incentive to educate consumers about the qualities and features of the DTV they want to purchase. That is why CEA runs an extraordinary educational effort to ensure that consumers are fully informed about their DTV options.

Indeed, last week the National Association of Consumer Agency Administrators (NACAA) presented CEA and the FCC with the Achievement in Consumer Education from for our joint work in informing consumers about the transition to DTV, and helping consumers make the digital choices that are right for them.

As the primary conduit to consumers, and it is critical that retail floor staff is properly equipped to provide accurate and easy-to-understand information.

CEA aggressively responded to this challenge and created a comprehensive DTV retailer-training program called CEKnowHow (it can be viewed online at [www.cknowhow.com](http://www.cknowhow.com)). This program is available to all retailers over the Internet. It equips them with the most up-to-date online training for sales associates, so that they can effectively respond to consumer inquiries on DTV and HDTV.

CEA also designed, printed, and made available to retailers a “tip sheet” that explains the DTV transition and basic DTV terms and technology. In late 2004, CEA partnered with the FCC and the Consumer Electronics Retailers Coalition (CERC) to distribute to literally hundreds of thousands of copies of the tip sheet to consumers, retailers, and professional home theater installers.

Over the last year, CEA also visited with major consumer electronics buying groups and talked to more than 2,000 dealers to bring them the latest information on the DTV transition. We have collaborated with Comcast on an educational DVD that covers DTV information ranging from basic definitions to the equipment required to receive and view HDTV content via antenna, satellite or cable delivery.

CEA also is making every effort to reach out directly to consumers. Millions of readers across the country saw our inserts in TV Guide and Sports Illustrated magazines explaining the basics of DTV, how to get a signal, what product choices are available, and so on. We also have showcased HDTV before hundreds of thousands of consumers through exhibits at home design shows and trade exhibitions and viewing parties in public venues across the nation.

CEA exposes millions of consumers to HDTV through our nationally pre-packaged video and news releases, as well as our national CEA media tour. And our quarterly HDTV Guide is the single most authoritative list of the DTV products and programming currently available.

Meanwhile, CEA has taken the lead in promoting consumer awareness and use of over-the-air digital television reception. Through our AntennaWeb program, consumers can visit a website ([www.antennaweb.org](http://www.antennaweb.org)), enter their home address, and find the optimal outdoor television antenna for their specific location. This site receives approximately 100,000 hits per month.

We also see it as our obligation to recognize those who are going above and beyond the call of duty in furthering the DTV transition. Every year, our Academy of DTV Pioneers honors the best of the best in HDTV programming, reporting and retailing. And, as it should be, every year the categories get more crowded and competitive.

This is just a sampling of CEA's strong commitment to educating consumers and retailers about the DTV transition.

In short, for the DTV transition, everything is moving rapidly in the right direction. Product sales continue to rise, as prices decline. The amount and variety of HDTV programming continue to increase. Content delivery industries are increasingly jumping onto the HD bandwagon. Exciting new products are rolling into the marketplace. Consumer and retailer education is advancing. By almost any measure, digital television is a marketplace success.

Now is the appropriate time to take the next step and bring the broadcast digital transition to a successful conclusion, just as envisioned by this Committee when the Congress loaned public spectrum to the broadcasters for the DTV transition a decade ago.



## **The Time for a Hard Deadline is Now**

The 700 MHz band currently occupied by analog broadcasters is beachfront property on the spectrum landscape. The prompt recovery of this spectrum by Congress will produce immense public interest and economic benefits while fostering innovation and protecting our national security.

First, the analog TV broadcast spectrum is ideal for advanced wireless broadband applications. A hard date will spur innovators to develop a broad range of new wireless technologies and services. These new wireless services will offer unprecedented access to rural and underserved areas, while creating competition that drive down prices for all wireless consumers.

A hard date also will fundamentally change and accelerate the DTV marketplace. With the certainty of a hard deadline, stations will know what to broadcast, manufacturers will know what to make, retailers will know what to stock, and consumers will know what to buy. With the completion of the digital transition now an imminent reality, all affected industries will shift our consumer education efforts into an even higher gear.

But the rationale for a hard date goes deeper than promoting new technologies and broadband access. As reinforced by this month's evacuation of the White House and this Capitol, the gravest threat to our safety is another national calamity like we suffered on September 11, 2001. It is now more apparent than ever that the 700 MHz band held by broadcasters is essential to the swift and effective response of Homeland Security, police, firefighters, and other first responders.

That is why, in a recent letter to Chairman Barton, the Association of Public Safety Communications Officials implored you to set an analog broadcasting

cutoff date, stating that “the security of our homeland and the lives and property of our citizens as well as our responders are at stake”.

The key to unleashing these benefits is for a hard date to be set, and set now. Fortunately, the video marketplace has now evolved to the point where an analog cutoff can be managed to cause the most minimal consumer disruption.

### **The Vast Majority of Americans Now Choose Cable or Satellite to Provide their Television Programming**

Americans now have more ways to receive video programming than ever before. The vast majority of Americans receive local and network broadcast signals via cable and satellite (and will soon have these services available via telephone, mobile and wireless broadband). Meanwhile, the statistics show that a small and declining number of households rely exclusively on a free over the air broadcast signal.

If there is any doubt about this, consider the total lack of public outcry over the recent announcement that Monday Night Football, long a staple of broadcast TV, will soon be available only to satellite and cable households.

Of the nearly 110 million American homes with at least one TV, 68 percent receive a cable signal and 22 percent receive a DBS signal. Our research shows that roughly 2% receive both cable and DBS. In total, approximately 87 percent of American homes will have access to cable or satellite (and thus network and local broadcast feeds).

This means that if the analog cut off occurred today, less than 13% of the population of 110 million TV households would not have access to a broadcast signal through cable or satellite.

And this number is shrinking significantly every year. Cable and satellite penetration continues to grow by about one to two percentage points annually. What's more, the market research firm Sanford Bernstein has just concluded that cable and satellite subscribers are growing 3.6 percent annually.

Further, the number of over-the-air homes will become less relevant as broadband penetration grows. Broadcasters are increasingly providing their content through other means including the Internet and mobile phones. Just recently, Verizon announced that a deal where it would provide NBC's feed over its fiber network.

With respect to consumers with neither cable nor satellite, our research shows that this population's decision not to subscribe generally is not solely for economic reasons. Indeed, our data shows that 52 percent choose not to subscribe for a reason other than cost – with almost a third reporting that they do not subscribe because they “don't watch that much TV.”

Those who do not subscribe to cable or satellite watch, on average 30% less television per week than cable and satellite subscribers. Nearly six of ten say television simply is not a high priority for them. Fewer than three in ten indicate that insufficient funds play a role in their decisions not to subscribe to cable or satellite television.

Some opponents of a hard deadline raise concern about the unconnected analog TV sets in households that subscribe to satellite or cable TV, and claim that most of these sets are used with antennas for watching over the air analog signals. In fact, primary viewing most often occurs on the TV that is connected to pay services. More often, the unconnected TVs are shunted to a less used room and hooked up with a DVD, VCR, or video game. Indeed, our research shows these sets are used at least half the time for one of these many alternate uses. In

addition, as many cable companies no longer have a monthly charge for additional outlets, this issue has become increasingly irrelevant for cable homes.

In households utilizing an antenna, TVs connected to the antenna are often used for an activity other than watching broadcast television. In these households the TV connected to an antenna is used approximately 40 percent of the time for watching pre-recorded content, playing video games, and other non-broadcast uses.

At the same time, we must acknowledge that some consumers may be adversely impacted by a hard date. That's why we respect and understand the interest of some members in creating a program whereby those viewers would have access to low cost digital to analog converters. In the past, our members have testified that, with economies of scale, converter prices will be in the fifty dollar range by the time of the proposed cut-off date. The only development that could interfere with this projection would be the imposition of state or national energy usage mandates on converters, which would adversely impact converter price and availability.

By the time of a year-end 2008 cut-off -- combining present adoption trends for cable and satellite and forecasts for uptake of recently announced TV services from telcos like Verizon and SBC, as well as the jump in purchases likely to occur with a hard cut off date -- the number of American homes that would lose their primary video signal should be far less than 13%. The simple fact is that, while an analog broadcasting cut-off is important for our nation, it will have only small practical impact on the viewing habits of the vast majority of Americans, and we believe the types of education and public awareness steps included in the draft legislation can effectively address the needs of those who wish to rely only on broadcast television.

## **CEA Endorses the Discussion Draft's Hard Deadline, and Offers Suggestions to Bring about a More Expeditious Transition**

In the United States, the transition to digital television has always been envisioned as having two purposes. The first was to bring the wonders of digital and especially high-definition TV to American consumers. The second was to capture the public interest and economic benefits of the return of the analog spectrum.

We are now well on our way toward accomplishing the first objective and it is appropriate that we turn our attention to the second.

CEA unequivocally endorses the Staff Draft's establishment of December 31 2008 for the recovery of the analog spectrum. The setting of a date certain will benefit consumers as spectrum is reallocated for purposes ranging from public safety communications to exciting new services such as wireless networking and Internet access.

The Staff Draft also contains a number of other provisions intended to help hasten the digital transition. CEA offers a number of suggestions that will help this Committee craft legislation that will ensure the most expeditious, practical, and consumer friendly result.

Specifically, we recommend the following:

**1. Tuner Mandate acceleration:** The staff draft requires the FCC to move up the deadline for the inclusion of over the air tuners in 13 to 24-inch sets from July 1 of 2007 to July 1 of 2006 – a full year before the original deadline and nearly 2.5 years before the 2008 hard deadline.

We are concerned that, if implemented, such a requirement would severely reduce the retail market for these sets.

Manufacturers need a minimum of 18 to 24 months to plan, develop and deploy new equipment. An accelerated tuner mandate could force some manufacturers who determine that meeting the new regulations is not feasible (and fear inability to comply with the FCC's regulations) to move to tunerless sets or to stop manufacturing altogether the TV models which cannot be fitted with digital tuners—which many manufacturers are reluctant to do and which would defeat the purpose of the tuner mandate itself.

Even if manufacturers were able to meet such a severely foreshortened production schedule, a July 2006 date could result in cost increases that the marketplace cannot sustain. Pushing up the tuner deadline for 13 to 26 inch sets to 2006 would double the development costs for manufacturers, as well as double the price of a typical 13 inch television to consumers. If the product is rejected by lower income and other consumers because the price exceeds their budget, it will not be carried by retailers and, eventually, not produced by manufacturers.

The unfortunate result of accelerating the tuner mandate deadlines would be to decrease the number of DTV tuners in the marketplace, which clearly does not serve the transition. By contrast, the current and anticipated July 2007 date allows time for economies of scale to fully develop. This will lessen the “sticker shock” for consumers, allowing these products a chance to compete against less expensive, tuner-less alternatives. In sum, the current tuner mandate is working and should be left as is. Forcing the market could have unintended consequences for consumers, manufacturers, and the DTV transition.

**2. Digital Carriage and Non-Degradation:** We appreciate that the Draft addresses the important issue of signal degradation, and ensuring that a digital signal is carried under all circumstances. It is fundamental that when cable operators are carrying broadcast signals digitally, they should not be allowed to

reduce the sound or picture quality. American households—most of whom are cable customers--have invested more than \$25 billion dollars in high-definition televisions. If a broadcaster is providing HDTV programming and Dolby Digital surround sound, then that is what HDTV owners who subscribe to cable should see and hear.

**3. Television Labeling:** CEA fully supports educational labels on analog televisions when paired with the certainty of a hard date. However, manufacturers will need a minimum 120 days to include the labels or label text on the outside of the product packaging and on or near the television itself. In order to prevent screen damage upon removal by a consumer or retailer, consideration should be given regarding the necessity of placing the label “on the screen” so long as it is attached to the product as shipped.

CEA urges that any label language should be concise or consumers may not read or understand it. CEA and CERC recommend the following language:

“This TV has only an ‘analog’ broadcast tuner so will require a converter box after [date] to receive over-the-air broadcasts with an antenna, because of the transition to digital broadcasting on that date. (It should continue to work as before with cable and satellite TV systems, gaming consoles, VCRs, DVD players, and similar products.)

**4. Channel allotments:** CEA supports the Draft’s proposed timetable of December 31 2006 as the final date for the FCC to issue final broadcaster channel allotments, and an additional seven months to conclude any reconsideration of such allotments. We urge the Committee not to extend the reconsideration period beyond seven months, as this could cause the final end date for analog broadcasting to slip to 2010.

**5. Broadcaster Disclosures:** In light of our own aggressive consumer education efforts, CEA has been disappointed with the paltry level of DTV consumer education offered by the broadcasters to date, especially the almost complete lack of broadcaster-sponsored public service announcements (PSAs). We commend the Committee for addressing this issue, and we urge that the legislation require increased broadcaster consumer education activities. Specifically, the Committee should consider starting the required announcements at least one year before analog shut-off, and increasing the number of ads from two per day – at least in months closest to the analog shut-off - and imposing separate educational requirements on networks as well as local broadcasters. This makes sense because broadcasters are the ones with the vested interest in transitioning the remaining over-the-air viewers to digital. Broadcasting is a powerful and effective communications medium, and it is essential that the broadcasters themselves step up and do their part to educate the nation about the transition to digital television.

## **Conclusion**

Setting a realistic date certain for the end of analog broadcasting and the recovery of the analog spectrum for new purposes is the right thing to do. It is right for consumers, it is right for innovation, and it is right for America's national security. A hard deadline will help foster the creation of new, high-skill jobs, and it will promote America's technology leadership in an increasingly competitive world.

We commend the staff draft as a critical step towards bringing the broadcast DTV transition to a successful and timely conclusion. Meanwhile we will continue our efforts to educate consumers about digital television. I pledge CEA's continuing commitment to working with this committee and other stakeholders to ensure the most timely and consumer friendly transition, and a prompt return of the analog broadcast spectrum.